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carnavale
resources ltd

ABN 49 119 450 243

AND CONTROLLED ENTITIES

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2013**

CARNAVALE RESOURCES LIMITED
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**CARNAVALE RESOURCES LIMITED
CORPORATE DIRECTORY**

DIRECTORS

Ron Gajewski
Peter Christie
Klaus Eckhof

COMPANY SECRETARY

Paul Jurman

**PRINCIPAL AND REGISTERED
OFFICE**

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Subiaco WA 6008

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AUDITORS

HLB Mann Judd
Level 4 130 Stirling Street
Perth WA 6000

SHARE REGISTRY

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Telephone: (08) 9315 2333
Facsimile: (08) 9315 2233

SECURITIES EXCHANGE

Australian Securities Exchange
Exchange Plaza
2 The Esplanade
Perth WA 6000

ASX CODE

CAV

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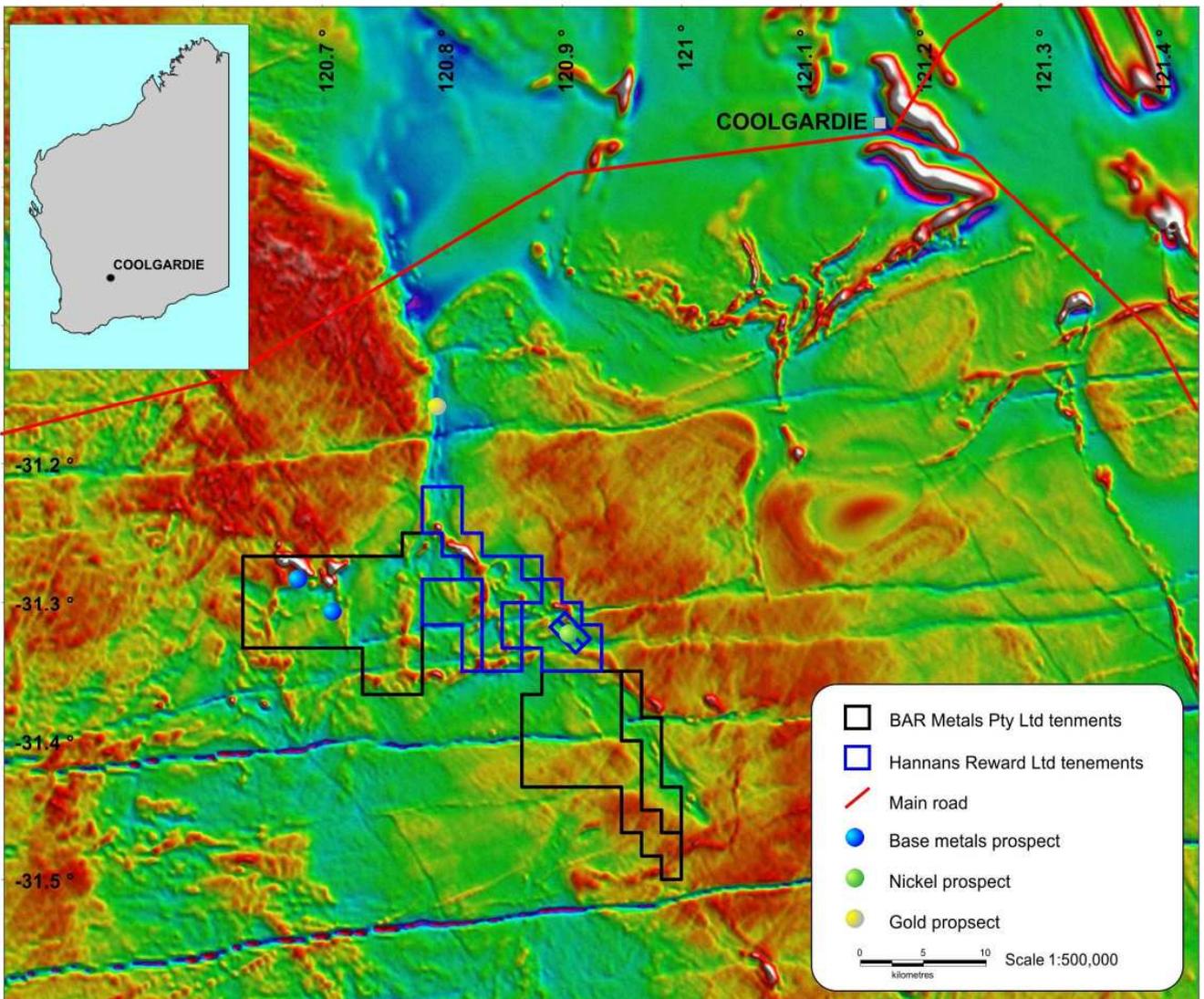
CARNAVALE RESOURCES LIMITED REVIEW OF OPERATIONS

Long Horse Project – Joint Venture

During the year, Carnavale entered into a joint venture agreement with Barrambie Minerals Limited, an unlisted Australian company, for Barrambie's mineral tenement applications E15/1352, E15/1372 and E15/1373, collectively the Long Horse project.

The Long Horse Project covers a total of 87 blocks and is adjacent to mineral claims and nickel sulphide occurrences owned by Hannans Reward Limited's (ASX: HNR) Queen Victoria Rocks Project. The Long Horse project area also includes areas formerly included in a joint venture between Emu Nickel Limited and Mincor Resources NL.

The Emu Nickel Limited and Mincor Resources NL joint venture identified a large magnetic anomaly at the margin of felsic granitoid intrusions. Postulated causes for the magnetic anomaly were a large magnetite source formed at an endoskarn setting or a folded banded iron formation wrapped around the granitoid. One reverse circulation drill hole (WRC017) was completed which tested the peak of a magnetic anomaly to 175 metres for a possible magnetite iron deposit. The hole was planned to go deeper but was abandoned as water inflows became too high. The hole intersected a number of thin BIF sequences.



CARNAVALE RESOURCES LIMITED REVIEW OF OPERATIONS

Details of the Agreement are as follows:

- CAV must spend a minimum of \$50,000 on exploration within 12 months from the date of grant of the mineral tenement applications E15/1352, E15/1372 and E15/1373 after which time it may elect to withdraw;
- Upon CAV spending a total of \$250,000 on exploration it will have earned an interest of 51% (Barrambie 49%);
- Upon CAV spending an additional \$1,000,000 on exploration it will have earned an interest of 80% (Barrambie 20%); and
- Standard dilution clauses apply thereafter.

Gold Project - Exploration Licence E38/2055

Exploration Licence E38/2055 is located approximately 7kms south of the Granny Smith Mine and approximately 25km south of Laverton in the Mt Margaret Mineralfield. The Licence covers the area adjacent and south of the Acacia resources area of Windich South which lies between the Granny Smith Mine and the licence.

After completion of a desktop review and due to limited outcrop and heavy soil cover on the project area a decision was made to relinquish the tenement.

Corporate - Other Minerals Investment Opportunities

The Board has also carried out the review of several mineral projects and corporate opportunities during the last financial year. The Company remains diligent in its assessment of assets at all times and is therefore prepared to commit necessary expenditure on due diligence and other studies before committing to a transaction.

The Company can give no assurance that these due diligence investigations and/or discussions will successfully conclude in an acquisition.

CARNAVALE RESOURCES LIMITED DIRECTORS' REPORT

The directors of Carnavale Resources Limited submit herewith the annual financial report of Carnavale Resources Limited ("Company") and its controlled entities ("Consolidated Entity" or "Group") for the year ended 30 June 2013 and the independent auditor's report thereon. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names and particulars of the directors of the Company during or since the end of the financial year are as follows.

Directors were in office for the entire period unless otherwise stated.

Ron Gajewski, BBus, CPA
Executive Chairman
Appointed 18 October 2006

Mr Gajewski is an accountant by profession, with many years of experience as a director of public listed companies and as a corporate advisor to public companies.

Mr Gajewski is currently chairman of Burey Gold Ltd and Erongo Energy Limited and has held directorships with mining companies listed in both Canada and Australia.

During the past three years he has also served as a director of the following listed companies:

| Company | Date appointed | Date ceased |
|-----------------------|-----------------------|--------------------|
| Erongo Energy Limited | 9 July 2007 | - |
| Burey Gold Limited | 23 March 2005 | - |

Peter Christie, BBus
Non-Executive Director
Appointed 28 April 2006

Mr Christie graduated from Curtin University with a Bachelor of Business in 1983, is a qualified accountant and tax agent and has over 24 years of public accounting experience.

He has served on several public company boards in the resource sector since 2006 and also developed extensive hospitality and property development interests.

During the past three years he has also served as Chairman of the following listed companies:

| Company | Date appointed | Date ceased |
|---------------------------------|-----------------------|--------------------|
| Safety Medical Products Limited | 6 October 2010 | - |
| Narhex Life Sciences Limited | 13 January 2011 | - |

CARNAVALE RESOURCES LIMITED DIRECTORS' REPORT

Klaus Eckhof, Dipl. Geol. TU, AusIMM
Non-Executive Director
Appointed 1 January 2008

Mr. Eckhof is a geologist who has global contacts and has been instrumental in sourcing and developing successful projects in Australia, Africa, Russia, South America and the Philippines.

He is currently Managing Director of Burey Gold Limited (ASX: BYR) and was formerly President and Chief Executive Officer of Moto Goldmines Limited ("MGL"). Within four years of Mr Eckhof's appointment, MGL discovered just under 20 million ounces of gold and completed a bankable feasibility study at the Moto Gold Project in the Democratic Republic of Congo . MGL was subsequently acquired by Randgold Resources.

During the past three years he has also served as a director of the following listed companies:

| Company | Date appointed | Date ceased |
|----------------------------|-----------------------|--------------------|
| Erongo Energy Limited | 24 August 2011 | - |
| Burey Gold Limited | 6 February 2012 | - |
| Cardinal Resources Limited | 1 February 2013 | - |

COMPANY SECRETARY

Paul Jurman, BCom, CPA
Appointed 22 November 2006

Mr Jurman is a Certified Practising Accountant with over 10 years experience and has been involved with a diverse range of Australian public listed companies in company secretarial and financial roles. He is also a director and company secretary of Nemex Resources Limited and Erongo Energy Limited.

Directors' interests

The relevant interests in the shares and options of the consolidated entity at the date of this report are as follows:

| Name | Ordinary shares | Options |
|-------------|------------------------|----------------|
| R Gajewski | 4,387,243 | - |
| P Christie | 522,001 | - |
| K Eckhof | - | - |

No director has an interest, whether directly or indirectly, in a contract or proposed contract with the consolidated entity.

PRINCIPAL ACTIVITIES

The principal activity of the Group was mineral exploration in Australia.

RESULTS AND REVIEW OF OPERATIONS

The consolidated loss after tax for the year ended 30 June 2013 was \$441,598 (2012: \$611,369).

A review of operations of the consolidated entity during the year ended 30 June 2013 is provided in the "Review of Operations" immediately preceding this Directors' Report.

CARNAVALE RESOURCES LIMITED

DIRECTORS' REPORT

LIKELY DEVELOPMENTS

The Company's focus over the next financial year will be to progress the mineral tenement applications comprising the Long Horse project with a view to commencing exploration work upon granting. The Company will also assess new project opportunities with a view to expanding its asset portfolio.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There has not been any significant changes in the state of affairs of the company and its controlled entities during the financial year, other than as noted in this financial report.

SUBSEQUENT EVENTS

On 11 September 2013, the Company announced it had entered into an agreement giving it the right to acquire 65% of a copper tailings project ("Essex Project") in the historically rich copper province of Milford, Utah, USA.

The Company has proposed to undertake a non-renounceable entitlement issue to existing Carnavale shareholders on the basis of one share for every three shares held at the record date at an issue price of 1.5 cents per share to raise approximately \$438,699 together with two free attaching options for every share issued ("Rights Issue"). The options will have an exercise price of 3 cents each and an expiry date of 30 November 2016.

Following completion of the Rights Issue, Carnavale proposes to undertake a securities placement of up to 30 million shares at 1.5 cents per share to raise \$450,000 before costs together with two free attaching options (on the same terms as disclosed above) for every share applied for and allotted ("Placement").

Other than the above, no matter or circumstance has arisen which has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

ENVIRONMENTAL ISSUES

The Group is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with all regulations when carrying out exploration work.

DIVIDENDS PAID OR RECOMMENDED

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

DIRECTORS' MEETINGS

The number of meetings of the Directors and the number of meetings attended by each Director during the year ended 30 June 2013 were:

| <i>Name</i> | <i>Eligible to attend</i> | <i>Attended</i> |
|-------------|---------------------------|-----------------|
| R Gajewski | 4 | 4 |
| P Christie | 4 | 4 |
| K Eckhof | 4 | 4 |

CARNAVALE RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT – AUDITED

Remuneration policy

The remuneration policy of Carnavale Resources Limited has been designed to align directors' objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of Carnavale Resources Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the Company.

The Board's policy for determining the nature and amount of remuneration for Board members is as follows:

- The remuneration policy and setting the terms and conditions for the Executive Directors and other senior staff members is developed and approved by the Board based on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice is obtained when considered necessary to confirm that executive remuneration is in line with market practice and is reasonable within Australian executive reward practices.
- All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation.
- The Consolidated Entity is an exploration entity and is therefore, speculative in terms of performance. Consistent with attracting and retaining talented executives, directors and senior executives are paid market rates associated with individuals in similar positions within the same industry. Options and performance incentives may be issued particularly as the Consolidated Entity moves from an exploration to a producing entity and key performance indicators such as profit and production and reserves growth can be used as measurements for assessing executive performance.
- The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Executive Director, in consultation with independent advisors, determine payments to the non-executive directors and review their remuneration annually, based on market practice, duties and accountability. The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at a shareholders meeting on 5 January 2007 when the shareholders approved an aggregate remuneration of \$200,000 per year. Fees for non-executive directors are not linked to the performance of the Consolidated Entity. However, to align Directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Details of specified key management personnel

Directors

| | | |
|------------|------------------------|---------------------------|
| R Gajewski | Executive Chairman | Appointed 18 October 2006 |
| P Christie | Non-Executive Director | Appointed 28 April 2006 |
| K Eckhof | Non-Executive Director | Appointed 1 January 2008 |

Executives

| | | |
|----------|-------------------|----------------------------|
| P Jurman | Company Secretary | Appointed 22 November 2006 |
|----------|-------------------|----------------------------|

Executive Directors' remuneration and other terms of employment are reviewed annually by the non-executive directors having regard to performance against goals set at the start of the year, relative comparative information and independent expert advice.

Except as detailed in the Remuneration Report, no director has received or become entitled to receive, during or since the financial period, a benefit because of a contract made by the Consolidated Entity or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in the Remuneration Report, prepared in accordance with the Corporations regulations, or the fixed salary of a full time employee of the Consolidated Entity.

**CARNAVALE RESOURCES LIMITED
DIRECTORS' REPORT**

Remuneration of specified directors and specified executives:

Remuneration for the year ended 30 June 2013

| | Short-term benefits | | Post-employment Super-annuation | Equity-based compensation | Total | Proportion related to performance |
|-------------------|---------------------|-----------------|---------------------------------|---------------------------|----------------|-----------------------------------|
| | Directors' fees | Consulting fees | | | | |
| | \$ | \$ | \$ | \$ | \$ | % |
| Directors | | | | | | |
| R Gajewski | - | 245,000 | - | - | 245,000 | - |
| P Christie | 25,000 | - | - | - | 25,000 | - |
| K Eckhof | 24,000 | - | - | - | 24,000 | - |
| Total | 49,000 | 245,000 | - | - | 294,000 | - |
| Executives | | | | | | |
| P Jurman | - | - | - | - | - | - |

Remuneration for the year ended 30 June 2012

| | \$ | \$ | \$ | \$ | \$ | % |
|-------------------|---------------|----------------|----------|----------|----------------|----------|
| Directors | | | | | | |
| R Gajewski | - | 264,000 | - | - | 264,000 | - |
| P Christie | 25,000 | - | - | - | 25,000 | - |
| K Eckhof | 24,000 | 2,000 | - | - | 26,000 | - |
| Total | 49,000 | 266,000 | - | - | 315,000 | - |
| Executives | | | | | | |
| P Jurman | - | - | - | - | - | - |

Remuneration Options

The Company has not granted any options over unissued ordinary shares during or since the end of the financial year to any Directors or officers as part of their remuneration.

Employment contracts of directors and executives

The Company has entered into an employment agreement with Mr Ron Gajewski whereby Mr Gajewski receives remuneration of \$150,000 plus GST (formerly \$264,000 per annum, plus GST) effective from 1 May 2013. The agreement may be terminated subject to a 3 month notice period.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001, every officer or agent of the Consolidated Entity shall be indemnified out of the property of the Consolidated Entity against any liability incurred by him in his capacity as Officer or agent of the Consolidated Entity or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

During the period the Company agreed to pay an annual insurance premium of \$9,093 in respect of directors' and officers' liability and legal expenses' insurance contracts, for directors, officers and employees of the Company. The insurance premium relates to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever the outcome.
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty.

**CARNAVALE RESOURCES LIMITED
DIRECTORS' REPORT**

SHARE OPTIONS

As at the date of this report, there were no options over unissued ordinary shares in the Company outstanding.

There are no options to subscribe for shares in any controlled entity.

There were no options issued during the year ended 30 June 2013 and up to the date of this report.

Shares issued on exercise of options

During or since the end of the financial year, the Company did not issue any ordinary shares as a result of the exercise of options.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2013 has been received and forms part of the directors' report and can be found on page 17 of the financial report.

NON - AUDIT SERVICES

There have been no non-audit services provided by the Company's auditor during the year (2012: Nil).

Signed in accordance with a resolution of the directors made pursuant to s 298(2) of the Corporations Act 2001.

On behalf of the Directors.



RON GAJEWSKI

Director

Dated this 13th day of September 2013.
Perth, Western Australia

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

ASX Listing Rule 4.10.3 requires listed companies to disclose in their Annual Report the extent to which they have complied with the ASX Best Practice Recommendations of the ASX Corporate Governance Council in the reporting period. A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

The Company's website at www.carnavaleresources.com contains a corporate governance section that includes copies of the Company's corporate governance policies.

Principle 1: Lay solid foundations for management and oversight

Role of the Board and of Senior Executives (1.1)

The Board is ultimately responsible for the overall management of Carnavale and for directing its strategic goals, with the aim of creating and delivering shareholder value through maximising the performance of Carnavale's business.

In performing its role, the Board's specific responsibilities include:

- endorsement of the strategic direction for Carnavale's business strategies and objectives;
- approving policies covering the management of business risks, safety and occupational health, community and environmental issues;
- monitoring Carnavale's operational and financial position and performance;
- identifying the principal risks faced by Carnavale and ensuring that appropriate control and monitoring systems are in place to manage the impact of these risks;
- ensuring that Carnavale's financial and other reporting mechanisms result in adequate, accurate and timely information being provided to the Board;
- approving processes, procedures and systems to ensure that financial results are appropriately and accurately reported on a timely basis;
- ensuring that shareholders and the financial market as a whole are fully informed of all material developments in relation to Carnavale and its businesses;
- appointing and, where appropriate, removing the CEO, approving other key executive appointments including the Company Secretary, and planning for executive succession;
- overseeing and evaluating the performance of the CEO and other senior executives in the context of Carnavale's strategies and objectives;
- ensuring processes and procedures are in place for evaluating the performance of the Board and each Director;
- reviewing and approving executive remuneration and general salary and bonus policy;
- approving Carnavale's budgets and business plans and monitoring the progress of major capital expenditures, capital management, acquisitions and divestitures;
- reviewing and approving Carnavale's internal compliance and control systems and codes of conduct;
- approving processes, procedures and systems to ensure Carnavale's compliance with all laws, governmental regulations and accounting standards; and
- approving processes, procedures and systems to ensure that Carnavale conducts its business openly and ethically in accordance with the Company's code of conduct.

The Board has delegated to the Executive Chairman authority over the day-to-day management of Carnavale and its operations. This delegation of authority includes responsibility for:

- developing business plans, budgets and strategies for Carnavale for consideration by the Board and, to the extent approved by the Board, implementing these plans, budgets and strategies;
- operating Carnavale's businesses within the parameters set by the Board from time to time, and keeping the Board informed of material developments in Carnavale's businesses;
- where proposed transactions, commitments or arrangements exceed the parameters set by the Board, referring the matter to the Board for its consideration and approval;
- identifying and managing operational and other risks and, where those risks could have a material impact on Carnavale's businesses, formulating strategies for managing these risks for consideration by the Board;
- managing Carnavale's current financial and other reporting mechanisms and control and monitoring systems to ensure that these mechanisms and systems capture all relevant material information on a timely basis and are functioning effectively;

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

- ensuring that the Board is provided with sufficient information on a timely basis in regard to Carnavale's businesses, and in particular with respect to Carnavale's performance, financial condition, operating results and prospects, to position the Board to fulfil its governance responsibilities;
- implementing the policies, processes and codes of conduct approved by the Board; and
- implementing policies, processes and procedures for the management and development of the Company's employees.

This statement of matters reserved for the Board and areas of delegated authority to the Executive Chairman is contained in the Board Charter posted on the Company's website.

Senior Executive Performance Review (1.2)

The Company has one executive director, Mr Gajewski and he is responsible for ensuring that the Company achieves the goals established by the Board.

Due to the size of the Company and the nature of its business, it has not been deemed necessary to institute a formal documented performance review program of Mr Gajewski. The Board considers that at this stage of the Company's development an informal process is appropriate.

This process for evaluating senior executives is contained in the Performance Evaluation and Remuneration Policy posted on the Company's website.

Principle 2: Structure the board to add value

The Board operates in accordance with the broad principles set out in its charter which is available from the corporate governance information section of the Company website. The Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations.

The names, experience and responsibilities of Directors of the Company in office at the date of this statement are set out in the Directors' Report.

Independent Directors (2.1)

In assessing whether a director is classified as independent, the Board considers the independence criteria set out in the ASX Corporate Governance Council Recommendation 2.1 and other facts, information and circumstances deemed by the Board to be relevant.

Using the ASX Best Practice Recommendations on the assessment of the independence of Directors, the Board considers that of a total of three Directors, Mr Christie and Mr. Eckhof are considered to be independent. Mr Gajewski is employed in an executive capacity by the Company and so is not considered to be independent. ASX Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent directors. The Board considers that at this stage of the Company's development, the experience and knowledge of the Board is appropriate,

Chairman and Chief Executive Officer (CEO) (2.2, 2.3)

The Chairman is responsible for leadership of the Board, for ensuring that the Board functions effectively, and for communicating the views of the Board to the public.

Mr Gajewski was appointed Executive Chairman from 28 February 2011 and therefore exercises the role of Chairman and Executive director. The Company therefore does not comply with ASX Corporate Governance Council Recommendation 2.2 which states the Chairman should be an independent director and 2.3 which states the role of Chairman and CEO should not be exercised by the same individual. The Board considers that the current composition of the Board is adequate for the Company's current size and operations, and includes an appropriate mix of skills and expertise, relevant to the Company's business. The Company considers that each of the directors possess skills and experience suitable for building the Company. The Board takes the responsibilities of best practice in corporate governance seriously. It is the Board's intention to review its composition on a continual basis as the Company's expands its activities and greater demands and skills amongst directors become necessary.

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

Nomination Committee (2.4)

The Company does not have a nomination committee. The Board considers that the Company is not currently of a size nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards. In particular, the full Board considers those matters that would usually be the responsibility of a nomination committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate nomination committee.

Directors are appointed under the terms of the Company's constitution. Appointments to the Board are based upon merit and against criteria that serves to maintain an appropriate balance of skills, expertise, and experience of the board. The categories considered necessary for this purpose are a blend of accounting and finance, business, technical and administration skills.

It is the policy of the Company that new Directors undergo an induction process in which they are given a full briefing on the Company. In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

The Constitution of the Company requires one third of the directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting. Directors cannot hold office for a period in excess of three years or later than the third Annual General Meeting following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders

This selection, nomination and appointment process is detailed in the Board Charter on the company website.

Board Performance Review (2.5)

It is the policy of the Board to conduct evaluation of its performance. This policy is to ensure individual Directors and the Board as a whole work efficiently and effectively in achieving their functions.

Each year the Board undertakes the following activities:

- The Chairman meets with each non-executive director separately to discuss individual performance and ideas for improvement; and
- The Board as a whole discusses and analyses its own performance during the year including suggestions for change or improvement.

Due to the size of the Board and the nature of its business, it has not been deemed necessary to institute a formal documented performance review program of individuals. The Chairman conducted an informal review process whereby he discussed with individual directors their attitude, performance and approach toward meeting the short and long term objectives of the Company. The board considers that at this stage of the Company's development an informal process is appropriate.

This process for evaluating the Board and Directors is contained in the Performance Evaluation and Remuneration Policy posted on the Company's website.

Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

Principle 3: Promote ethical and responsible decision making

Code of Conduct (3.1)

The Company has developed a Code of Conduct (the Code), which has been endorsed by the Board and applies to all employees, Directors and officers. The Code may be amended from time to time as necessary to ensure it reflects the practices necessary to maintain confidence in the Company's integrity and to take into account legal obligations and reasonable expectations of the Company's stakeholders. The Code outlines the responsibility and accountability of Company personnel to report and investigate reports of unethical practices.

This Code of Conduct can be found on the company website.

Trading Policy (3.1)

Trading in Company securities is regulated by the Corporations Act and the ASX Listing Rules. The Board makes all Directors, officers and employees aware on appointment that it is prohibited to trade in the Company's securities whilst that Director, officer or employee is in the possession of price sensitive information.

For details of shares held by Directors and officers please refer to the Directors' Report. Directors are required to report to the Company Secretary any movements in their holdings of Company securities, which are reported to ASX in the required timeframe prescribed by the ASX Listing Rules.

This Share Trading Policy can be found on the company website.

Diversity (3.2, 3.3, 3.4)

The Company has a commitment to workplace diversity and ensuring that a diverse mix of skills and talent exists amongst its directors, officers and employees.

The Board recognises the value of providing an inclusive workplace and the value of having a workforce made up of individuals with diverse skills, values, background and experiences, with a commitment to equality and respect. Given the current scale of operations, stage of development and size of the workforce, the Board considers it impractical to have a formal diversity policy.

Due to the size of the Company and its workforce, the Board does not consider it appropriate to set measurable objectives for achieving gender diversity at this time.

Principle 4: Safeguard Integrity in Financial reporting

Audit Committee (4.1, 4.2, 4.3)

The Company does not have an audit committee. The Board considers that the Company is not currently of a size nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards. In particular, the full Board considers those matters that would usually be the responsibility of an audit committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate audit committee.

External Auditors

The Company requires external auditors to demonstrate quality and independence. The performance of the external auditor is reviewed and applications for tender of external audit services requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

It is HLB Mann Judd's policy to rotate audit engagement partners on listed companies at least every 5 years.

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

Principle 5 & 6: Making Timely and Balanced Disclosure and Shareholder Communication

Continuous Disclosure Policy and Shareholder Communication (5.1, 6.1)

The Company has developed a Continuous Disclosure Policy which has been endorsed by the Board. The Continuous Disclosure Policy ensures compliance with ASX Listing Rules and Corporations Act obligations to keep the market fully informed of information which may have a material effect on the price or value of its securities and outlines accountability at a senior executive level for that compliance. All ASX announcements are to be posted to the Company website as soon as possible after confirmation of receipt is received from ASX, including all financial reports.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. In preparing for general meetings of the Company, the Company drafts the notice of meeting and related explanatory information so that they provide all of the information that is relevant to shareholders in making decisions on matters to be voted on by them at the meeting. This information is presented clearly and concisely so that it is easy to understand and not ambiguous. The Company uses general meetings as a tool to effectively communicate with shareholders and allows shareholders a reasonable opportunity to ask questions of the Board of Directors and to otherwise participate in the meeting. The external auditor of the Company is asked to attend each annual general meeting and to be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. Important issues are presented to the shareholders as single resolutions. The shareholders are also responsible for voting on the appointment of Directors.

The Company is committed to maintaining a Company website with general information about the Company and its operations and information specifically targeted at keeping the Company's shareholders informed about the Company. In particular, where appropriate, after confirmation of receipt by the ASX, the following are posted to the Company website:

- relevant announcements made to the market via the ASX;
- media releases;
- investment updates;
- company presentations and media briefings;
- copies of press releases and announcements for the preceding three years; and
- copies of annual and half yearly reports including financial statements for the preceding three years.

The Continuous Disclosure Policy and Shareholder Communication Policy can be found on the Company website.

Principle 7: Recognise and Manage Risk

The Company is not currently of a size to require the formation of committees. The full Board has the responsibility for the risk management, compliance and internal controls systems of the Company.

Risk Management (7.1, 7.2)

Risks are assessed and managed by management who are responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system. The Company's risk management policy is designed to provide the framework to identify, assess, monitor and manage the risks associated with the Company's business. The Company adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Company's risk profile. The Board also monitors risks and controls through its financial reporting and audit process and regular operating reports from management which include safety, health and environmental aspects. The risks involved in a resources sector company and the specific uncertainties for the Company continue to be regularly monitored and the Managing Director regularly appraises the full Board of the Company as to the effectiveness of the Company's management of its material business risks. All proposals reviewed by the Board include a consideration of the issues and risks of the proposal.

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

The Company's main areas of risk include:

- exploration;
- new project acquisitions;
- security of tenure;
- environment;
- government policy changes and political risk;
- occupational health and safety;
- financial reporting; and
- continuous disclosure obligations.

Assurances from the Executive Chairman and the Company Secretary/Financial Controller (7.3)

It is the responsibility of the Board to regularly assess the adequacy of the Company's risk management and internal control systems and that its financial affairs comply with applicable laws and regulations and professional practices.

Regular consideration is given to all these matters by the Board. The Company has in place an internal control framework to assist the Board in identifying, assessing, monitoring and managing risk.

The Company's internal control system is monitored by the Board and assessed regularly to ensure effectiveness and relevance to the Company's current and future operations. Procedures have been put into place to ensure the Executive Chairman and the Company Secretary/Financial Controller state in writing to the Board that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control and that the Company's risk management and internal compliance and control system is operating efficiently and effectively.

The Executive Chairman and the Company Secretary/Financial Controller have declared in writing to the Board that the Company's financial statements for the year ended 30 June 2012 present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards, that this is founded on a sound system of risk management and internal compliance and control and that the Company's risk management and internal compliance and control system is operating efficiently and effectively. This representation is made by the Executive Chairman and Company Secretary/Financial Controller prior to the Director's approval of the release of the annual and half yearly accounts. This representation is made after enquiry of, and representation by, appropriate levels of management.

The Risk Management Policy can be found on the Company website.

Principle 8: Remunerate Fairly and Responsibly

Remuneration Committee (8.1)

The Company does not have a remuneration committee. The Board considers that the Company is not currently of a size nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards. In particular, the full Board considers those matters that would usually be the responsibility of a remuneration committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate remuneration committee.

Remuneration Policy (8.2)

The remuneration policy of Carnavale Resources has been designed to align director's objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of Carnavale Resources believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company. Directors' Remuneration is approved by resolutions of the Board. The Board's policy for determining the nature and amount of remuneration for Board members is as follows:

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

Non-Executive Directors

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. Payments to the non-executive Directors are reviewed annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive Directors are not linked to the performance of the Company. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company. Non-executive Directors are entitled to receive incentive options (subject to shareholder approval) as it is considered an appropriate method of providing sufficient reward whilst maintaining cash reserves. There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

Executives

The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, the remuneration of senior executives may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in any option scheme with thresholds approved by shareholders;
- statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration, the Company aims to align the interests of senior executives with those of shareholders and increase Company performance.

The objective behind using this remuneration structure is to drive improved Company performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

Participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements. Details of this policy can be found in the Performance Evaluation and Remuneration Policy on the Company website.

For details of remuneration paid to Directors and officers for the financial year please refer to the Directors' Report.

**CARNAVALE RESOURCES LIMITED
AUDITOR'S INDEPENDENCE DECLARATION**



Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Carnavale Resources Limited for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Carnavale Resources Limited and the entities it controlled during the year.

A handwritten signature in blue ink, appearing to read 'M R W Ohm'.

**Perth, Western Australia
13 September 2013**

**M R W Ohm
Partner**

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CARNAVALE RESOURCES LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

| | Note | Consolidated | |
|--|------|------------------|------------------|
| | | 2013 \$ | 2012 \$ |
| Revenue | 3 | 41,188 | 52,644 |
| | | <u>41,188</u> | <u>52,644</u> |
| Expenditure | | | |
| Administrative expenses | 4 | (484,664) | (517,946) |
| Exploration expenditure impaired | 11 | (25,237) | (17,095) |
| Net loss on disposal of available for sale investments | | - | (138,629) |
| Plant and equipment impairment | 10 | - | (18,038) |
| Foreign exchange gain / (loss) | 4 | 27,115 | 27,695 |
| | | <u>(441,598)</u> | <u>(611,369)</u> |
| Loss before related income tax benefit | | (441,598) | (611,369) |
| Income tax benefit | 5 | - | - |
| Net loss attributable to members of the parent entity | | <u>(441,598)</u> | <u>(611,369)</u> |
| Other comprehensive income / (loss) | | | |
| Exchange differences on translation of foreign operations | | - | 6,135 |
| Other comprehensive income / (loss) for the period, net of tax | | - | 6,135 |
| Total comprehensive loss for the year | | <u>(441,598)</u> | <u>(605,234)</u> |
| Loss per share | | | |
| Basic – cents | 17 | <u>(0.50)</u> | <u>(0.70)</u> |
| Diluted – cents | 17 | <u>(0.50)</u> | <u>(0.70)</u> |

The accompanying notes form part of these financial statements

CARNAVALE RESOURCES LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

| | Note | Consolidated 2013 \$ | 2012 \$ |
|--|-------|----------------------------|------------------|
| Current assets | | | |
| Cash and cash equivalents | 18(a) | 1,466,072 | 1,864,507 |
| Receivables | 8 | 8,484 | 11,617 |
| Other assets | 9 | 10,121 | 18,519 |
| Total current assets | | <u>1,484,677</u> | <u>1,894,643</u> |
| Non-current assets | | | |
| Plant and equipment | 10 | 6,189 | 138 |
| Exploration and evaluation expenditure | 11 | - | 7,948 |
| Other assets | 12 | 9,375 | 9,375 |
| Total non-current assets | | <u>15,564</u> | <u>17,461</u> |
| Total assets | | <u>1,500,241</u> | <u>1,912,104</u> |
| Current liabilities | | | |
| Trade and other payables | 13 | 48,816 | 19,081 |
| Total current liabilities | | <u>48,816</u> | <u>19,081</u> |
| Total liabilities | | <u>48,816</u> | <u>19,081</u> |
| Net assets | | <u>1,451,425</u> | <u>1,893,023</u> |
| Equity | | | |
| Issued capital | 14 | 22,625,370 | 22,625,370 |
| Reserves | 15 | 1,249,661 | 1,249,661 |
| Accumulated losses | 16 | (22,423,606) | (21,982,008) |
| Total equity | | <u>1,451,425</u> | <u>1,893,023</u> |

The accompanying notes form part of these financial statements

CARNAVALE RESOURCES LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

| | Issued capital | Option reserve | Consolidated Foreign currency translation reserve | Accumulated losses | Total |
|--|---------------------------|---------------------------|--|-------------------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2011 | 22,625,370 | 1,249,661 | (6,135) | (21,370,639) | 2,498,257 |
| Loss attributable to members of the parent entity | - | - | - | (611,369) | (611,369) |
| Exchange differences arising on translation of foreign operations (divested) | - | - | 6,135 | - | 6,135 |
| Total comprehensive loss for the year | - | - | 6,135 | (611,369) | (605,234) |
| Balance at 30 June 2012 | 22,625,370 | 1,249,661 | - | (21,982,008) | 1,893,023 |

| | Issued capital | Option reserve | Consolidated Foreign currency translation reserve | Accumulated losses | Total |
|--|---------------------------|---------------------------|--|-------------------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2012 | 22,625,370 | 1,249,661 | - | (21,982,008) | 1,893,023 |
| Loss attributable to members of the parent entity | - | - | - | (441,598) | (441,598) |
| Total comprehensive loss for the year | - | - | - | (441,598) | (441,598) |
| Balance at 30 June 2013 | 22,625,370 | 1,249,661 | - | (22,423,606) | 1,451,425 |

The accompanying notes form part of these financial statements

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CARNAVALE RESOURCES LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

| | Note | Consolidated | |
|---|-------|------------------|------------------|
| | | 2013 \$ | 2012 \$ |
| Cash flows from operating activities | | | |
| Payments to suppliers | | (440,510) | (524,629) |
| Rental security deposit | | - | (9,375) |
| Interest received | | 41,188 | 52,644 |
| Net cash outflows from operating activities | 18(b) | <u>(399,322)</u> | <u>(481,360)</u> |
| Cash flows from investing activities | | | |
| Payments for exploration and development expenditure | | (17,289) | (747,043) |
| Payments for property, plant and equipment | | (8,939) | - |
| Proceeds received from disposal of investment | | - | 811,036 |
| Net cash outflows from investing activities | | <u>(26,228)</u> | <u>63,993</u> |
| Cash flows from financing activities | | - | - |
| Net cash inflows from financing activities | | <u>-</u> | <u>-</u> |
| Net (decrease) in cash and cash equivalents held | | (425,550) | (417,367) |
| Effect of foreign exchange fluctuations on cash held | | 27,115 | 27,696 |
| Cash and cash equivalents at the beginning of the financial year | | <u>1,864,507</u> | <u>2,254,178</u> |
| Cash and cash equivalents at the end of the financial year | 18(a) | <u>1,466,072</u> | <u>1,864,507</u> |

The accompanying notes form part of these financial statements

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1. CORPORATE INFORMATION

Carnavale Resources Limited is a company limited by shares, incorporated in Australia. The Company's shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activity of the Group is mineral exploration and oil and gas exploration.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law. The financial statements have also been prepared on a historical cost basis, except for available for-sale financial assets which have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the consolidated entity consisting of Carnavale Resources Limited and its subsidiaries.

(b) Adoption of new and revised standards

In the year ended 30 June 2013, the directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for the current annual reporting period.

It has been determined by the directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change is necessary to Group accounting policies.

The directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2013. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group and, therefore, no change is necessary to Group accounting policies.

(c) Statement of compliance

The financial statement of Carnavale Resources Limited (the Company) for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the directors on 13th September 2013.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

**CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Carnavale Resources Limited ('company' or 'parent entity') as at 30 June 2013 and the results of all subsidiaries for the year then ended. Carnavale Resources Limited and its subsidiaries are referred to in this financial report as the group or the consolidated entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition.

(e) Income tax

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither that accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Income tax (continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

(f) Exploration and evaluation expenditure

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met:
 - (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
 - (b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

(g) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(h) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date (where applicable). Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred (where applicable).

(j) Impairment of assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired and makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether any previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(k) Earnings per share

Basic earnings per share is calculated as net profit / (loss) attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

(l) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the statement of comprehensive income.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income.

(n) Financial assets

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes party to the contractual provisions of the financial instrument. A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity. A financial liability is removed from the statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets and financial liabilities classified as held for trading are measured at fair value through profit or loss.

Upon initial recognition a financial asset or financial liability is designated as at fair value through profit or loss when:

- (a) an entire contract containing one or more embedded derivatives is designated as a financial asset or financial liability at fair value through profit or loss.
- (b) doing so results in more relevant information, because either:
 - (i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on different bases; or
 - (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured are not designated as at fair value through profit or loss.

A gain or loss arising from a change in the fair value of a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.

Financial assets not measured at fair value comprise:

- (a) loans and receivables being non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest rate method.
- (b) held-to-maturity investments being non-derivative financial assets with fixed or determinable payments and fixed maturity that will be held to maturity. These are measured at amortised cost using the effective interest method.
- (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These are measured at cost together with derivatives that are linked to and must be settled by the delivery of such investments.

**CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial assets (continued)

Available-for-sale financial assets are non-derivative financial assets which are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments or financial assets as at fair value through profit or loss.

A gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognised directly in equity, through the statement of changes in equity (except for impairment losses and foreign exchange gains and losses) until the financial asset is derecognised at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Regular purchases of financial assets are accounted for as follows:

- financial assets held for trading – at trade date
- held-to-maturity investments – at trade date
- loans and receivables – at trade date
- available-for-sale financial assets – at trade date

Except for the following all financial liabilities are measured at amortised cost using the effective interest rate method.

- (a) financial liabilities at fair value through profit and loss and derivatives that are liabilities measured at fair value.
- (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or are accounted for using the continuing involvement approach.

The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or uncollectability.

(o) Foreign currency translation

Both the functional and presentation currency of Carnavale Resources Limited is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of this subsidiary are translated into the presentation currency of Carnavale Resources Limited at the rate of exchange ruling at the balance date and its statement of financial performance is translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

**CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end. Depreciation is calculated on a diminishing value basis over the estimated useful life of the assets as follows:

Plant and equipment – 4 years

(q) Trade and other payables

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services.

(r) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(s) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Carnavale Resources Limited.

(t) Significant accounting estimates

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. There are no key estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period.

(u) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term, discounting is not applied in determining the allowance.

When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

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CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

3. REVENUE

| | Consolidated | |
|----------------------|---------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Other revenue | | |
| Interest earned | 41,188 | 52,644 |
| | 41,188 | 52,644 |

4. EXPENSES

| | Consolidated | |
|---|---------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Loss before income tax includes the following specific expenses: | | |
| Depreciation of plant and equipment | 2,888 | 515 |
| Foreign exchange (gain)/loss | (27,115) | (27,695) |
| | (24,227) | (27,180) |

5. INCOME TAX

(a) Prima facie tax benefit at 30% on loss from ordinary activities is reconciled to the income tax provided in the financial statements

| | Consolidated | |
|---|---------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Loss before income tax | (441,598) | (611,369) |
| Prima facie income tax benefit at 30% | 132,479 | 183,411 |
| Tax effect of amounts which are not tax deductible / (taxable) in calculating taxable income: | | |
| Due diligence / capital related costs | - | (46,940) |
| Exploration expenses | (2,384) | - |
| Tax effect of capitalised share issue costs | 39,003 | 68,648 |
| Other non-deductible items | - | (164) |
| Income tax benefit adjusted for non deductible / (taxable) items | 169,098 | 204,955 |
| Deferred tax asset not brought to account | (169,098) | (204,955) |
| Income tax benefit | - | - |

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NOTES TO THE FINANCIAL STATEMENTS
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5. INCOME TAX (continued)

(b) Deferred tax assets

The potential deferred tax asset arising from tax losses and temporary differences has not been recognised as an asset because recovery of tax losses is not yet considered probable.

| | Consolidated | |
|------------------------------|---------------------|------------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Carry forward revenue losses | 6,162,419 | 5,996,454 |
| Carry forward capital losses | 2,421,724 | 2,506,886 |
| Capital raising costs | 38,432 | 77,436 |
| | <u>8,622,575</u> | <u>8,580,776</u> |

The benefits will only be obtained if:

- (i) The companies in the group derive future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the losses to be realised;
- (ii) The companies continue to comply with the conditions for deductibility imposed by the Law; and
- (iii) No changes in tax legislation adversely affect the companies in realising the benefits from the deductions for the losses.

(c) Deferred tax liabilities

The potential deferred tax liability arising from capitalised exploration expenditure has not been recognised as a liability. This would reduce the potential deferred tax asset noted at (b) above.

| | Consolidated | |
|---|---------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Deferred exploration and evaluation expenditure | - | - |
| | <u>-</u> | <u>-</u> |

6. AUDITOR'S REMUNERATION

| | Consolidated | |
|---|---------------------|---------------|
| | 2013 | 2012 |
| | \$ | \$ |
| The auditor of Carnavale Resources Limited is HLB Mann Judd. | | |
| Amounts received or due and receivable by the Company's auditors for: | | |
| Auditing or reviewing the Company's financial statements | 28,000 | 25,970 |
| | <u>28,000</u> | <u>25,970</u> |

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CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

7. KEY MANAGEMENT PERSONNEL

(a) Details of key management personnel

Directors

R Gajewski (appointed 18 October 2006)

P Christie (appointed 28 April 2006)

K Eckhof (appointed 1 January 2008)

Executive

P Jurman – Company Secretary

(b) Compensation of key management personnel

| | Consolidated | |
|------------|---------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Short-term | 294,000 | 315,000 |
| | 294,000 | 315,000 |

The Company has applied the option under Corporations Amendments Regulation 2006 to transfer key management personnel remuneration disclosures required by AASB 124 Related Party Disclosures paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' Report. These transferred disclosures have been audited.

(c) Shareholdings of key management personnel

Year ended 30 June 2013

| | Balance at 1 July 2012 | Granted as remuneration | Net other change | Balance at 30 June 2013 |
|------------------|-----------------------------------|------------------------------------|-----------------------------|------------------------------------|
| Directors | | | | |
| R Gajewski | 3,887,243 | - | 500,000 | 4,387,243 |
| P Christie | 522,001 | - | - | 522,001 |
| K Eckhof | - | - | - | - |
| Total | 4,409,244 | - | 500,000 | 4,909,244 |
| Executive | | | | |
| P Jurman | - | - | - | - |

Year ended 30 June 2012

| | Balance at 1 July 2011 | Granted as remuneration | Net other change | Balance at 30 June 2012 |
|------------------|-----------------------------------|------------------------------------|-----------------------------|------------------------------------|
| Directors | | | | |
| R Gajewski | 3,665,344 | - | 221,899 | 3,887,243 |
| P Christie | 522,001 | - | - | 522,001 |
| K Eckhof | - | - | - | - |
| Total | 4,187,345 | - | 221,899 | 4,409,244 |
| Executive | | | | |
| P Jurman | - | - | - | - |

**CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

7. KEY MANAGEMENT PERSONNEL (continued)

(d) Option holdings of key management personnel

Year ended 30 June 2013

| | Balance at 1 July 2012 | Granted as remuneration | Net other change (i) | Balance at 30 June 2013 |
|------------------|-----------------------------------|------------------------------------|---------------------------------|------------------------------------|
| Directors | | | | |
| R Gajewski | 3,665,344 | - | (3,665,344) | - |
| P Christie | 522,001 | - | (522,001) | - |
| K Eckhof | - | - | - | - |
| Total | 4,187,345 | - | (4,187,345) | - |
| Executive | | | | |
| P Jurman | - | - | - | - |

(i) The options expired unexercised on 28 February 2013.

Year ended 30 June 2012

| | Balance at 1 July 2011 | Granted as remuneration | Net other change | Balance at 30 June 2012 |
|------------------|-----------------------------------|------------------------------------|-----------------------------|------------------------------------|
| Directors | | | | |
| R Gajewski | 3,665,344 | - | - | 3,665,344 |
| P Christie | 522,001 | - | - | 522,001 |
| K Eckhof | - | - | - | - |
| Total | 4,187,345 | - | - | 4,187,345 |
| Executive | | | | |
| P Jurman | - | - | - | - |

(e) Other key management personnel transactions

Accounting, secretarial and corporate service fees of \$58,208 (2012: \$50,471) and rental fees of \$29,993 (2012: \$2,319) were paid or payable during the year ended 30 June 2013 on normal terms and conditions to Corporate Consultants Pty Ltd, a company in which Mr Gajewski and Mr Jurman are directors and have a beneficial interest.

Corporate Consultants Pty Ltd also holds a rental security deposit of \$9,375 (2012: \$9,375) - (Note 12).

8. CURRENT RECEIVABLES

| | Consolidated | |
|-----------------------|---------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Other receivables (i) | 8,484 | 11,617 |

(i) Other receivables represents amounts outstanding for goods and services tax (GST), which are non-interest bearing, with repayment terms applicable under the relevant government authorities.

9. OTHER CURRENT ASSETS

| | Consolidated | |
|-------------|---------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Prepayments | 10,121 | 18,519 |

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

10. PLANT AND EQUIPMENT

| | Consolidated | |
|--------------------------------|---------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Plant and equipment, at cost | 10,527 | 1,588 |
| Less: accumulated depreciation | (4,338) | (1,450) |
| | <u>6,189</u> | <u>138</u> |
| Balance at beginning of year | 138 | 18,691 |
| Additions | 8,939 | - |
| Plant and equipment impaired | - | (18,038) |
| Depreciation expense | (2,888) | (515) |
| | <u>6,189</u> | <u>138</u> |

11. EXPLORATION AND EVALUATION EXPENDITURE

| | | |
|--|----------|--------------|
| Exploration and evaluation costs carried forward in respect of exploration areas of interest (i) | - | 7,948 |
| | <u>-</u> | <u>7,948</u> |
| Opening balance | 7,948 | 949,665 |
| Exploration expenditure | 17,289 | 25,043 |
| Exploration expenditure impaired | (25,237) | (17,095) |
| Amount transferred to available-for-sale financial assets (ii) | - | (949,665) |
| | <u>-</u> | <u>7,948</u> |

- (i) The ultimate recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.
- (ii) During the year ended 30 June 2012, the Company entered into an agreement with ADX Energy Limited to dispose of its 20% interest in the Lambouka Project in Tunisia. In consideration for the disposal of the 20% working interest, Carnavale received 11,172,535 shares in ADX. The Company disposed of all of its shares in ADX during the 2012 financial year.

12. OTHER NON-CURRENT ASSETS

| | Consolidated | |
|--------------------------------------|---------------------|--------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Rental security deposit (Note 7 (e)) | 9,375 | 9,375 |
| | <u>9,375</u> | <u>9,375</u> |

13. TRADE AND OTHER PAYABLES

| | Consolidated | |
|------------------------------|---------------------|---------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Current | | |
| Trade and other payables (i) | 48,816 | 19,081 |
| | <u>48,816</u> | <u>19,081</u> |

- (i) Trade and other payables amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

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NOTES TO THE FINANCIAL STATEMENTS
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14. ISSUED CAPITAL

(a) Issued capital

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(b) Movements in share capital

| | 2013 | 2012 | 2013 | 2012 |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Number | Number | \$ | \$ |
| Balance at beginning of period | 87,739,708 | 87,739,708 | 22,625,370 | 22,625,370 |
| No movement during the year | - | - | - | - |
| Balance at end of period | <u>87,739,708</u> | <u>87,739,708</u> | <u>22,625,370</u> | <u>22,625,370</u> |

15. RESERVES

| | Consolidated | |
|--|---------------------|------------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Foreign currency translation reserve (a) | - | - |
| Option reserve (b) | 1,249,661 | 1,249,661 |
| Total | <u>1,249,661</u> | <u>1,249,661</u> |

(a) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

| | Consolidated | |
|--|---------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Balance at beginning of year | - | (6,135) |
| Divestiture of foreign controlled entities | - | 6,135 |
| Balance at end of year | <u>-</u> | <u>-</u> |

(b) Option reserve

The option reserve represents amounts received in consideration for the issue of options to subscribe for ordinary shares in the Company and the value of options issued to third parties for services rendered.

| | Consolidated | |
|------------------------------|---------------------|------------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Balance at beginning of year | 1,249,661 | 1,249,661 |
| Balance at end of year | <u>1,249,661</u> | <u>1,249,661</u> |

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**CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

15. RESERVES (continued)

Movement in Options over ordinary shares

Options to subscribe for ordinary shares in the capital of the Company have been granted as follows:

| 2013 | | | | | |
|-------------------------------|-----------------------|--|-------------------------------------|--------------------------------------|---|
| Exercise Period | Exercise Price | Opening Balance 1 July 2012 | Options Issued 2012/2013 | Options Expired 2012/2013 | Closing Balance 30 June 2013 |
| | | <i>Number</i> | <i>Number</i> | <i>Number</i> | <i>Number</i> |
| On or before 28 February 2013 | \$0.20 | 79,588,524 | - | (79,588,524) | - |

79,588,524 options expired unexercised on 28 February 2013.

| 2012 | | | | | |
|-------------------------------|-----------------------|--|-------------------------------------|--|---|
| Exercise Period | Exercise Price | Opening Balance 1 July 2011 | Options Issued 2011/2012 | Options Exercised 2011/2012 | Closing Balance 30 June 2012 |
| | | <i>Number</i> | <i>Number</i> | <i>Number</i> | <i>Number</i> |
| On or before 28 February 2013 | \$0.20 | 79,588,524 | - | - | 79,588,524 |

16. ACCUMULATED LOSSES

| | Consolidated | |
|---|---------------------|---------------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Accumulated losses at the beginning of the year | (21,982,008) | (21,370,639) |
| Loss for the year | (441,598) | (611,369) |
| Accumulated losses at the end of the year | <u>(22,423,606)</u> | <u>(21,982,008)</u> |

17. LOSS PER SHARE

| | Consolidated | |
|--|---------------------|-------------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Net loss after income tax attributable to members of the Company | <u>(441,598)</u> | <u>(611,369)</u> |
| | Number | Number |
| Weighted average number of shares on issue during the financial year used in the calculation of basic earnings per share | 87,739,708 | 87,739,708 |
| Effect of dilution | - | - |
| Weighted average number of ordinary shares for diluted earnings per share | <u>87,739,708</u> | <u>87,739,708</u> |

Effect of Dilutive Securities - Share Options

The Company has no share options at 30 June 2013 (30 June 2012: 79,588,524). Options are considered to be potential ordinary shares. However, in periods of a net loss, share options are anti-dilutive, as their exercise will not result in lower earnings per share. The options have therefore not been included in the determination of diluted earnings per share.

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CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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18. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consists of cash at bank and in hand and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

| | Consolidated | |
|--------------|---------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Cash at bank | 1,466,072 | 1,864,507 |
| | 1,466,072 | 1,864,507 |

(b) Reconciliation of loss after tax to net cash flows from operations

| | Consolidated | |
|--|---------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Loss after income tax | (441,598) | (611,369) |
| Depreciation | 2,888 | 515 |
| Exploration expenditure and PP&E impaired | 25,237 | 35,133 |
| Net loss on disposal of available for sale investments | - | 138,629 |
| Net exchange differences | (27,115) | (21,561) |
| (Increase) / decrease in assets | | |
| Trade and other receivables | 11,531 | (1,949) |
| Other assets | - | (9,375) |
| Increase / (decrease) in liabilities | | |
| Trade and other payables | 29,735 | (11,383) |
| | (399,322) | (481,360) |

(c) Non-cash financing of investing activities

There were no non-cash financing of investing activities during the financial year.

19. COMMITMENTS AND CONTINGENCIES

(a) Commitments

Mineral exploration commitments

| | Consolidated | |
|------------------------|---------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Within one year | 50,000 | 28,326 |
| One year to five years | - | 3,562 |
| Total | 50,000 | 31,888 |

It is estimated that the consolidated entity is required to make the above outlays to satisfy exploration permit conditions on the Long Horse project.

Lease commitments

| | Consolidated | |
|------------------------|---------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Within one year | 22,150 | 22,150 |
| One year to five years | 27,734 | 49,884 |
| Total | 49,884 | 72,034 |

The group leases its corporate offices under non-cancellable operating leases expiring within five years.

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19. COMMITMENTS AND CONTINGENCIES (continued)

(b) Contingent liabilities

The consolidated entity does not have any contingent liabilities at balance date.

20. EVENTS SUBSEQUENT TO BALANCE DATE

On 11 September 2013, the Company announced it had entered into an agreement giving it the right to acquire 65% of a copper tailings project ("Essex Project") in the historically rich copper province of Milford, Utah, USA.

The Company has proposed to undertake a non-renounceable entitlement issue to existing Carnavale shareholders on the basis of one share for every three shares held at the record date at an issue price of 1.5 cents per share to raise approximately \$438,699 together with two free attaching options for every share issued ("Rights Issue"). The options will have an exercise price of 3 cents each and an expiry date of 30 November 2016.

Following completion of the Rights Issue, Carnavale proposes to undertake a securities placement of up to 30 million shares at 1.5 cents per share to raise \$450,000 before costs together with two free attaching options (on the same terms as disclosed above) for every share applied for and allotted ("Placement").

Other than the above, no matters or circumstances have arisen since 30 June 2013 that have or may significantly affect the operations, results, or state of affairs of the consolidated entity in future financial years.

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Overview

The activities of the Company expose it to a variety of financial risks, including:

- market risk;
- credit risk; and
- liquidity and capital risks.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the business. Carnavale will use different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Company through regular reviews of the risks.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Australian dollar is the reporting currency for the Group and the functional currency for the parent company; however the Group currently holds foreign currency, namely US Dollars.

At 30 June 2013, had the Australian Dollar weakened / strengthened by 10% against the US Dollar with all other variables held constant, both the post-tax loss and equity for the year would be \$24,160 higher / \$29,528 lower, mainly as a result of the change in value of the foreign cash and cash equivalents held by the Group as at balance date.

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(ii) Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

| | 30 June 2013 | | 30 June 2012 | |
|----------------------|--------------|-------------|--------------|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| | \$ | \$ | \$ | \$ |
| United States Dollar | 242,714 | - | 243,888 | - |

(iii) Interest rate risk

The Group is exposed to movements in market interest rates on short term deposits.

The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table:

| | Note | Floating interest rate | Fixed interest rate | Non- interest bearing | Total | Weighted average interest rate % |
|------------------------------|-------|------------------------------|---------------------------|-----------------------------|-----------|--|
| | | \$ | \$ | \$ | \$ | |
| 2013 | | | | | | |
| Financial assets | | | | | | |
| Cash and cash equivalents | 18(a) | 1,465,291 | - | 781 | 1,466,072 | 2.53 |
| Trade and other receivables | 8 | - | - | 8,484 | 8,484 | |
| | | 1,465,291 | - | 9,265 | 1,474,556 | |
| Financial liabilities | | | | | | |
| Trade and other payables | 13 | - | - | 48,816 | 48,816 | |
| | Note | Floating interest rate | Fixed interest rate | Non- interest bearing | Total | Weighted average interest rate % |
| | | \$ | \$ | \$ | \$ | |
| 2012 | | | | | | |
| Financial assets | | | | | | |
| Cash and cash equivalents | 18(a) | 1,863,787 | - | 720 | 1,864,507 | 3.13 |
| Trade and other receivables | 8 | - | - | 11,617 | 11,617 | |
| | | 1,863,787 | - | 12,337 | 1,876,124 | |
| Financial liabilities | | | | | | |
| Trade and other payables | 13 | - | - | 19,081 | 19,081 | |

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21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below, where interest is applicable. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2012.

| Consolidated | Profit or (Loss) | | Equity | |
|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 100bp increase \$ | 100bp decrease \$ | 100bp increase \$ | 100bp decrease \$ |
| 30 June 2013 | | | | |
| Variable rate instruments | 16,271 | (16,271) | 16,271 | (16,271) |
| Cash flow sensitivity (net) | 16,271 | (16,271) | 16,271 | (16,271) |
| 30 June 2012 | | | | |
| Variable rate instruments | 16,811 | (16,811) | 16,811 | (16,811) |
| Cash flow sensitivity (net) | 16,811 | (16,811) | 16,811 | (16,811) |

Financial assets

Trade receivables from other entities are carried at nominal amounts less any allowance for doubtful debts. Other receivables are carried at nominal amounts due. Interest is recorded as income on an accruals basis.

Financial liabilities

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the group.

Net fair value of financial assets and liabilities

The carrying amount of cash and cash equivalents approximates fair value because of their short-term maturity.

(iv) Commodity price risk

As Carnavale has explored for a variety of minerals including gold, copper, molybdenum, iron and oil, it will be exposed to the risks of fluctuation in prices for those minerals. The market for all of these minerals has a history of volatility, moving not only with the standard forces of supply and demand, but also in the case of gold, to investment and disinvestment. Prices fluctuate widely in response to changing levels of supply and demand but, in the long run, prices are related to the marginal cost of supply.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and investment deposits. The Group has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The main risks the Group is exposed to through its financial instruments are the depository banking institution itself, holding the funds, and interest rates. The Group does not have significant exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Group's maximum exposure to credit risk.

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NOTES TO THE FINANCIAL STATEMENTS
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21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(b) Credit risk (continued)

The Company and Group have established an allowance for impairment that represents their estimate of incurred losses in respect of other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures. The management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity and capital risk

The Group's total capital is defined as the shareholders' net equity plus any net debt. The objectives when managing the Company's capital is to safeguard the business as a going concern, to maximise returns to shareholders and to maintain an optimal capital structure in order to reduce the cost of capital.

The Group does not have a target debt / equity ratio but has a policy of maintaining a flexible financing structure so as to be able to take advantage of investment opportunities when they arise. There are no externally imposed capital requirements.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

The table below analyses the Group's financial liabilities into maturity groupings based on the remaining period from the balance date to the contractual maturity date.

| 2013 | Within 1 year | Between 1 and 5 years | After 5 years |
|------------------------------------|--------------------------|--------------------------------------|--------------------------|
| | \$ | \$ | \$ |
| Financial liabilities | | | |
| Trade and other payables | 48,816 | - | - |
| Total Financial Liabilities | 48,816 | - | - |

| 2012 | Within 1 year | Between 1 and 5 years | After 5 years |
|------------------------------------|--------------------------|--------------------------------------|--------------------------|
| | \$ | \$ | \$ |
| Financial liabilities | | | |
| Trade and other payables | 19,081 | - | - |
| Total Financial Liabilities | 19,081 | - | - |

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

If the Company anticipates a need to raise additional capital in the next 12 months to meet forecasted operational activities, then the decision on how the Company will raise future capital will depend on market conditions existing at that time.

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CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

22. INVESTMENT IN CONTROLLED ENTITIES

| Entity | Country of incorporation | Equity holding | Equity holding | Contribution to consolidated result | Contribution to consolidated result |
|--|--------------------------|----------------|----------------|-------------------------------------|-------------------------------------|
| | | 2013 % | 2012 % | 2013 \$ | 2012 \$ |
| Carnavale Resources Mineração Ltda (i) | Brazil | - | - | - | (20,752) |
| Carnavale Recursos Minerais Mineração do Brasil Ltda (i) | Brazil | - | - | - | - |
| Carnavale Petroleum Pty Ltd | Australia | 100 | 100 | - | (156,150) |
| | | | | - | (176,902) |

(i) In December 2011 the Group liquidated and deregistered its Brazilian subsidiaries, namely Carnavale Resources Mineração Ltda and Carnavale Recursos Minerais Mineração do Brasil Ltda, after relinquishing the mineral rights within the Parmegiana Iron Ore Project.

23. SEGMENT REPORTING

The directors have considered the requirements of AASB 8 – Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources and have concluded that, during the year, Carnavale operated predominantly in one business segment being mineral exploration within Australia. Accordingly, under the management approach outlined above only one operating segment has been identified and no further disclosure is required in the annual report.

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CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

24. PARENT ENTITY DISCLOSURES

(a) Summary financial information

Financial Position

| | 2013 | 2012 |
|--------------------------|------------------|------------------|
| | \$ | \$ |
| Assets | | |
| Current assets | 1,484,677 | 1,894,643 |
| Non-current assets | 15,564 | 17,461 |
| Total assets | <u>1,500,241</u> | <u>1,912,104</u> |
| Liabilities | | |
| Current liabilities | 48,816 | 19,081 |
| Total liabilities | <u>48,816</u> | <u>19,081</u> |
| Net assets | <u>1,451,425</u> | <u>1,893,023</u> |
| Equity | | |
| Issued capital | 22,625,370 | 22,625,370 |
| Option premium reserve | 1,249,661 | 1,249,661 |
| Accumulated losses | (22,423,606) | (21,982,008) |
| Total equity | <u>1,451,425</u> | <u>1,893,023</u> |

Financial performance

| | 2013 | 2012 |
|-------------------------------------|------------------|------------------|
| | \$ | \$ |
| Loss for the year after income tax | (441,598) | (590,615) |
| Other comprehensive income / (loss) | - | - |
| Total comprehensive loss | <u>(441,598)</u> | <u>(590,615)</u> |

(b) Guarantees entered into by the parent entity in relation to the debts of its subsidiary

Carnavale Resources Limited has not entered into any guarantees in relation to the debts of its subsidiary.

(c) Contingent liabilities of the parent

The parent entity did not have any contingent liabilities as at 30 June 2013 or 30 June 2012.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2013 (30 June 2012 – \$Nil), the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment.

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**CARNAVALE RESOURCES LIMITED
DIRECTORS' DECLARATION**

In the opinion of the Directors of Carnavale Resources Limited:

- (a) The accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year then ended; and
 - (ii) complying with Accounting Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) The financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2013.

Signed in accordance with a resolution of the Directors made pursuant to s 295(5) of the Corporations Act 2001.

On behalf of the Board.



RON GAJEWSKI
Director

Dated this 13th day of September 2013
Perth, Western Australia

**CARNAVALE RESOURCES LIMITED
INDEPENDENT AUDITOR'S REPORT**



Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Carnavale Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Carnavale Resources Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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HLB Mann Judd (WA Partnership) is a member of  International, a worldwide organisation of accounting firms and business advisers.

CARNAVALE RESOURCES LIMITED
INDEPENDENT AUDITOR'S REPORT



Accountants | Business and Financial Advisers

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Carnavale Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion the remuneration report of Carnavale Resources Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

A handwritten signature in blue ink, appearing to read 'M R W Ohm'.

M R W Ohm
Partner

Perth, Western Australia
13 September 2013

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**CARNAVALE RESOURCES LIMITED
SHAREHOLDER INFORMATION**

The shareholder information set out below was applicable as at 4 September 2013.

1. Distribution of holders of equity securities

| Size of holding | Ordinary Shares |
|------------------|-----------------|
| 1 - 1,000 | 42 |
| 1,001 - 5,000 | 60 |
| 5,001 - 10,000 | 90 |
| 10,001 - 100,000 | 191 |
| 100,001 and over | 64 |
| | 447 |

2. Voting rights

There are no restrictions to voting rights attached to the ordinary shares. On a show of hands every member present in person will have one vote and upon a poll, every member present or by proxy will have one vote for each share held.

3. Substantial Shareholders

There are no substantial shareholders as advised to the Company.

4. Unmarketable parcels

As at 4 September 2013 there were 299 shareholders with unmarketable parcels of shares.

5. Restricted securities

The Company does not have any restricted securities.

6. Top 20 shareholders

The names of the twenty largest shareholders as at 4 September 2013, who hold 79.42% of the fully paid ordinary shares of the Company were as follows:

| Name of holder | Number of ordinary fully paid shares held | Percentage held | |
|----------------|---|-----------------|-------|
| 1 | JP Morgan Nominees Ltd | 40,825,569 | 46.53 |
| 2 | Vienna Holdings Pty Ltd <Ronjen Super fund A/c> | 4,387,243 | 5.00 |
| 3 | HSBC Custody Nominees Aust Ltd | 3,452,507 | 3.93 |
| 4 | Michael Lynch <Lynch Family A/c> | 2,842,500 | 3.24 |
| 5 | Annabel Kate Glover | 2,699,000 | 3.08 |
| 6 | National Nominees Limited | 2,046,738 | 2.33 |
| 7 | St Barnabas Investments Pty Ltd | 1,377,944 | 1.57 |
| 8 | Neville John Bassett | 1,250,000 | 1.42 |
| 9 | SP +RM + CR Jones <Scopa Family A/c> | 1,215,355 | 1.39 |
| 10 | Bimedent Pty Ltd | 1,200,000 | 1.37 |
| 11 | Katana Equity Pty Ltd <Sala Tenna Family A/c> | 1,088,976 | 1.24 |
| 12 | Corporate & Resource Consultants Pty Ltd | 1,000,000 | 1.14 |
| 13 | Rachel Pearl | 1,000,000 | 1.14 |
| 14 | Dr Georg Schnura | 1,000,000 | 1.14 |
| 15 | Classic Capital Pty Ltd | 1,000,000 | 1.14 |
| 16 | McNeil Nominees Pty Ltd | 712,300 | 0.81 |
| 17 | Anthony Di Lena | 700,000 | 0.80 |
| 18 | Yarandi Investments Pty Ltd | 686,400 | 0.78 |
| 19 | Critical Holdings Pty Ltd | 630,000 | 0.72 |
| 20 | Oceanic Capital Pty Ltd | 567,264 | 0.65 |
| | 69,681,796 | 79.42 | |

CARNAVALE RESOURCES LIMITED
SCHEDULE OF MINERAL CONCESSION INTERESTS

Group mineral concession interests at 4 September 2013

| <i>Concession name and type</i> | <i>Registered Holder</i> | <i>File Number</i> | <i>Carnavale's current equity interest</i> | <i>Maximum equity interest capable of being earned</i> |
|----------------------------------|-----------------------------|---------------------------------|--|--|
| Location: Australia | | | | |
| Long Horse Project Joint Venture | Carnavale Resources Limited | E15/1352, E15/1372 and E15/1373 | -% | 80% |

Notes

- (i) Under the terms of the Long Horse Project Joint Venture, Carnavale may earn up to an 80% interest in the project in 2 phases.